

Jordan Valley
Authority

Business Process
Mapping: Revenue
Business Cycle

Financial Accounting
System Program

July 2000

OSC Member
FAS Team Member



FORWARD

Collaborative Approaches for Resolving Water Issues



Business Mapping Reports:

- General Process Mapping
- Expenditure Business Cycle
- Inventory and Fixed Assets Business Cycle
- ✓ **Revenue Business Cycle**
- Budget and Accounting Business Cycle
- Workshop Business Cycle
- Payroll & Personnel Cycle



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ACRONYMS

AP	Accounts Payable
AR	Accounts Receivable
ASG	Assistant Secretary General
CCL	Cash Collection List
CFI	Call for Information
COA	Chart of Accounts
FA	Fixed Assets
GL	General Ledger
H/W	Hardware
IC	Inventory Control
JC	Job Costing
LSD	Land and Survey Department
MOF	Ministry of Finance
OE	Order Entry
PO	Purchase Order
RDBMS	Relation Database Management System
SPF	Seasonal Planning and Forecasting program
S/W	Software
WIP	Work In Progress

ARABIC EXECUTIVE SUMMARY

ملخص تنفيذي بالعربية

تم إعداد هذا الملخص التنفيذي (FAS) من قبل فريق العمل المختص لدراسة الجدوى الاقتصادية لمشروع إنشاء مصنع لإنتاج المواد البلاستيكية. يهدف المشروع إلى تلبية الطلب المتزايد على هذه المواد في السوق المحلية، وتعزيز التنمية الصناعية في المنطقة. يتضمن المشروع إنشاء مصنع بطاقة إنتاجية قدرها 100 ألف وحدة سنوياً، مع توفير فرص عمل لـ 50 شخصاً. تم إجراء تحليل دقيق للتكاليف والإيرادات، مما يشير إلى أن المشروع قابل للجدوى اقتصادياً. كما تمت دراسة المخاطر المحتملة، مثل تقلبات أسعار المواد الخام، والتي يمكن التغلب عليها من خلال استراتيجيات إدارة المخاطر المناسبة. يُتوقع أن يساهم المشروع في زيادة الإيرادات الحكومية من خلال الضرائب، وتعزيز التنمية الاقتصادية المحلية.

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EXECUTIVE SUMMARY

The new financial accounting system (FAS) at the Jordan Valley Authority (JVA) will be accrual-based and will provide JVA with a balance sheet, an income statement, a statement of cash flow, and periodic financial and operational reports. JVA generates revenue in four ways: from the sale of water, from the sale of farming and housing plots, from the sale or rental of land for investment, and from leasing land for gas stations, industrial use, stone pits and other activities. Because of current practices, the implementation of the FAS will affect procedures in all these areas.

The business activities in the revenue cycle include:

- Managing and processing orders
- Invoicing
- Receiving cash
- Disbursing cash
- Maintaining customer master files

After a making a detailed analysis of the procedures used in these activities, we offer the following recommendations for changes:

Water Sales

- Issue serially numbered invoices monthly to assure the completeness of water revenue records.
- Use serially pre-numbered irrigation orders to enhance control over entry of the orders into the system and to make sure that all farmers receive the service they requested.
- Upon implementing a billing system, segregate invoice, receipts and receivable processing as a control measure.
- Develop a detailed statement of account to be sent to farmers to remind them of balances due.
- Install tamper-proof water meters where farmers will not have ready access to them. In addition, institute severe penalties for attempting to tamper with water meters.
- Use an account receivable subsidiary ledger for easy reference to track the movement of receivables to source documents and to any information related to a farmer's account.

Sale of Land

- Accounts should be aged to identify bad debts.
- Credit notes should be used to support any adjustments made to farmers' accounts.

- There should be a master file for each farmer to help monitor accounts receivable and to be able to tell the financial position of each farmer, his fees and payments, ability to pay, credit limit and water consumption forecasts.

Lease and Sale of Land for Investment

- Keep track of accounts receivable and payable and establish a reference for such transactions.
- Treat the value of the land in accordance with international accounting standards.
- Record interest earned and interest accrued on a monthly basis.
- Generate proper subsidiary ledgers to be posted to the general ledger on a regular basis.

Lease Land for Queries

- Treat the land as an investment according to international accounting standards.
- Land value should appear in the financial statement as a current investment under current assets or non-current assets, depending on the intent to sell the land in the short or long run.
- Long-term investments (non-current assets) should be evaluated by cost or revaluation amount.
- Lease land for queries and land for investment should be handled by the same division instead of separately by the Queries Division and the Investment Directorate respectively.

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CHAPTER 1

INTRODUCTION

The convention that distinguishes between the receipt of cash, the right to receive cash and the payment of cash and the obligation to pay cash is known as the accrual convention. Accrual-based accounting matches revenues and expenses for a certain period unlike cash-based accounting where revenues and expenses are not considered until revenues are collected and/or expenses are paid. The new financial accounting system (FAS) at the Jordan Valley Authority (JVA) will be accrual-based and will provide JVA with a balance sheet, an income statement, a statement of cash flow, and periodic financial and operational reports.

JVA generates revenue in four ways: from the sale of water, from the sale of land for housing or farming, from the lease and sale of land for investment, and from leasing land for gas stations, industrial use, stone pits and other activities. Because of current practices, the implementation of the FAS will affect procedures in all areas.

This document describes in detail procedures in the business activities in the revenue business cycle and aims to identify the changes in those procedures that would be necessary to implement the FAS. A business activity is defined as a sequence of related procedures within a business cycle that accomplishes a primary objective of the cycle. The business activities in the revenue cycle include:

- Managing and processing orders
- Invoicing
- Receiving cash
- Disbursing cash
- Maintaining customer master files

Procedures are documented in the form of flowcharts and narrative descriptions to help the reader understand how the systems work. Reporting requirements for the Ministry of Finance (MOF) and the computer systems used in this cycle are discussed separately.

CHAPTER 2

REVENUE FROM WATER SALES

2.1 Introduction

The business activities involved in the sale of water are the following:

- Managing and processing orders
- Invoicing and adjustments
- Processing cash receipts
- Maintaining master files.

Revenue from water sales affects three JVA accounts: revenue, receivables, and cash. Billing, controlling receivables, and cash collection all take place at stage offices, the revenue centers of JVA. Each stage office has a data entry clerk, an accounting clerk, a cashier and two water distributors on staff. The “General Process Mapping” report documents in brief JVA hierarchy, source of water, water supply system, and numbers of stage offices and farming units.

The water management information system (WMIS) has been installed in each stage office. This program tracks billing, water consumption, and fees due from farming units. In addition to the computer system, each stage office manually maintains ledgers of monthly water consumption and farmers’ receivable accounts.

The WMIS has a database that includes information on farming units and their weekly shares of water. To receive water, farmers are required to fill out an “irrigation request” with a frequency that varies from one stage office to another. The purpose of this form is to guarantee the farmer’s share of water. Each stage office determines daily water demand from the requests.

The Water Management and Control Division at the Dirar Center forecasts water demand by using the seasonal planning and forecasting program (SPF). The SPF can be used as follows:

- To forecast the quantity of rainfall and other water based either on a calculation of the average for the last thirty-two years (stored in the database) or on a year from the historical database that has the same characteristics as the current year.
- To plan the landscape of the unit, farming type, and available quantity of all water resources (controlled and uncontrolled). Dirar Center can forecast the quantity of water that should be pumped for each stage office and can adjust that quantity at any time according to changes that may arise.

Dirar controls the gates of the dams and the King Abdullah Canal (KAC), and issues daily orders to open them. Some of the gates are controlled manually and others hydraulically.

Water is circulated through the system by pumps. Each pump has a meter to measure the amount of water sent through it. The Dirar Center can compare the quantity consumed by each stage office with the quantity pumped, taking into consideration normal loss. An efficiency ratio can then be calculated. The quantity of water to be pumped to each stage office is determined, and the Dirar Center informs all stage offices of their shares for the season.

2.2 Managing and Processing Orders

- Farmers must fill out an irrigation request (IR). An IR includes information on quantity of water requested and on timing. **Exception:** Some stage offices do not use the IR but instead depend on information stored in their databases.
- The data entry clerk posts the quantity requested in the IR to the system and generates an irrigation order report (IOR). When there are differences between quantities in the database and the IOR, the system gives a warning message.
- At the end of each day, the head of the division calls the Dirar Center to inform them of the next day's water requirements.
- Four copies of the IOR are generated by the system and distributed as follows: (1) to the distributor who obtains the report from the stage office; (2) to the controlling committee to ensure that every farmer receives his share of water according to schedule; (3) to Dirar Center; and (4) to the internal auditor at the division.

The distributor's task is to allocate water according to the IOR. Each division forms committees that work in shifts to perform spot checks on the units to make sure that every unit receives its share of water. Each distributor fills in actual meter readings on an "irrigation order form" and submits it to the accounting clerk at the stage office to record in the water consumption ledger and in the database.

The committees also prepare reports that list violations of irrigation procedures by farmers and submit them to the land clerk to compute penalties. The land clerk submits the penalty due to the central cashier for collection; the stage office blocks water distribution to the unit till the penalty is paid. **Exception:** If the WMIS is not operating at the stage office, the report goes directly to the accounting clerk to record manually in the revenue ledger.

Figure 2.1 below illustrates the water distribution process from its initiation to the calculation of farmers' water bills.

2.3 Invoicing and Adjustments

Theoretically, there should be meters at each farming unit to measure water consumption. In reality, only a few meters are working; the rest are broken. As a result, JVA calculates the quantity consumed mathematically based on the average quantity of water pumped per second multiplied by the number of operating hours. The WMIS does not generate invoices. JVA claims fees from farmers when they fill out the IR for the next period.

At the end of each month, the WMIS in each stage office calculates the amount due from each farming unit based on predetermined quantity consumption brackets. Information on fees and water consumed is stored on the hard drive and on a tape. Figure 2.2 below illustrates the process of recording the amount due and the quantity of water consumed in the manually kept records and the processing of cash receipts at stage offices.

After calculating the amount due from farmers, the data entry clerk submits a printout of accounts receivable to the accounting clerk who records the amount due per farming unit manually in the receivable ledger. The data entry clerk also sends the accounting clerk water consumption and financial reports to be submitted to the division for audit.

Figure 2.1 Processing Orders and Invoices

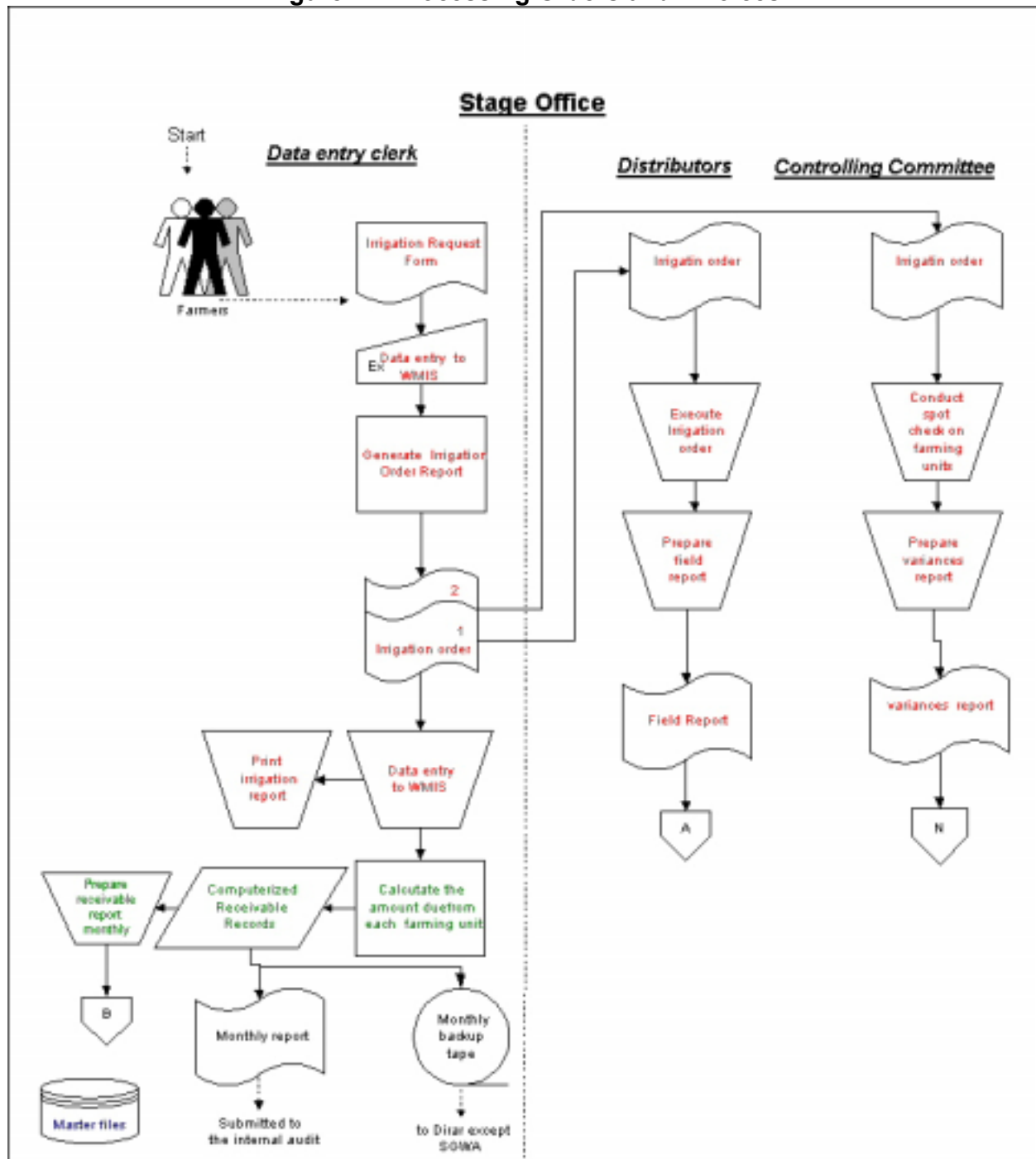
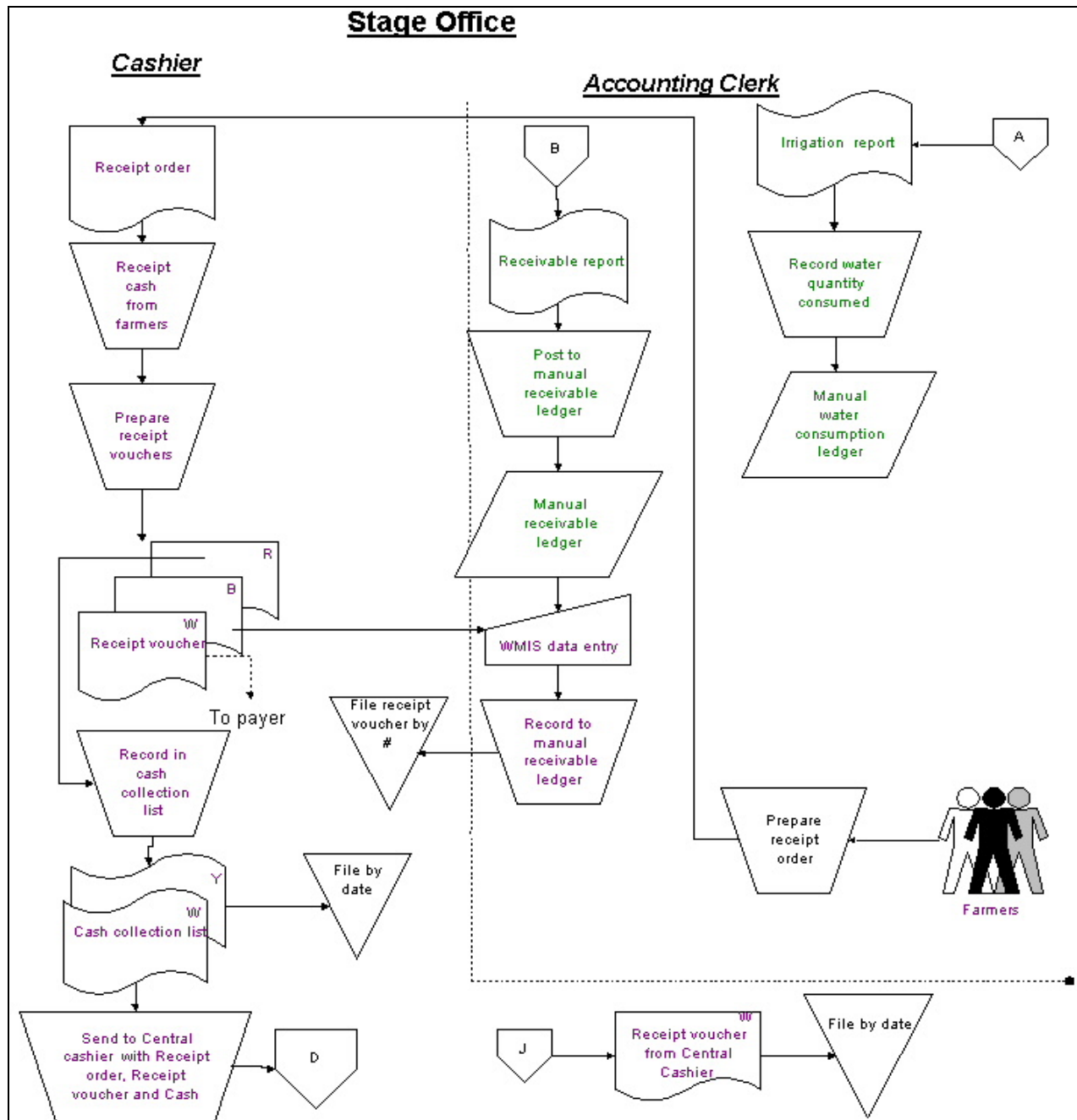


Figure 2.2 Processing Cash Receipts at the Stage Office



2.4 Receiving Cash

Processing receipts begins when farmers fill out the IR as the stage office will not approve the IR unless the farmer has paid whatever fees he owes. The payment procedure is as follows:

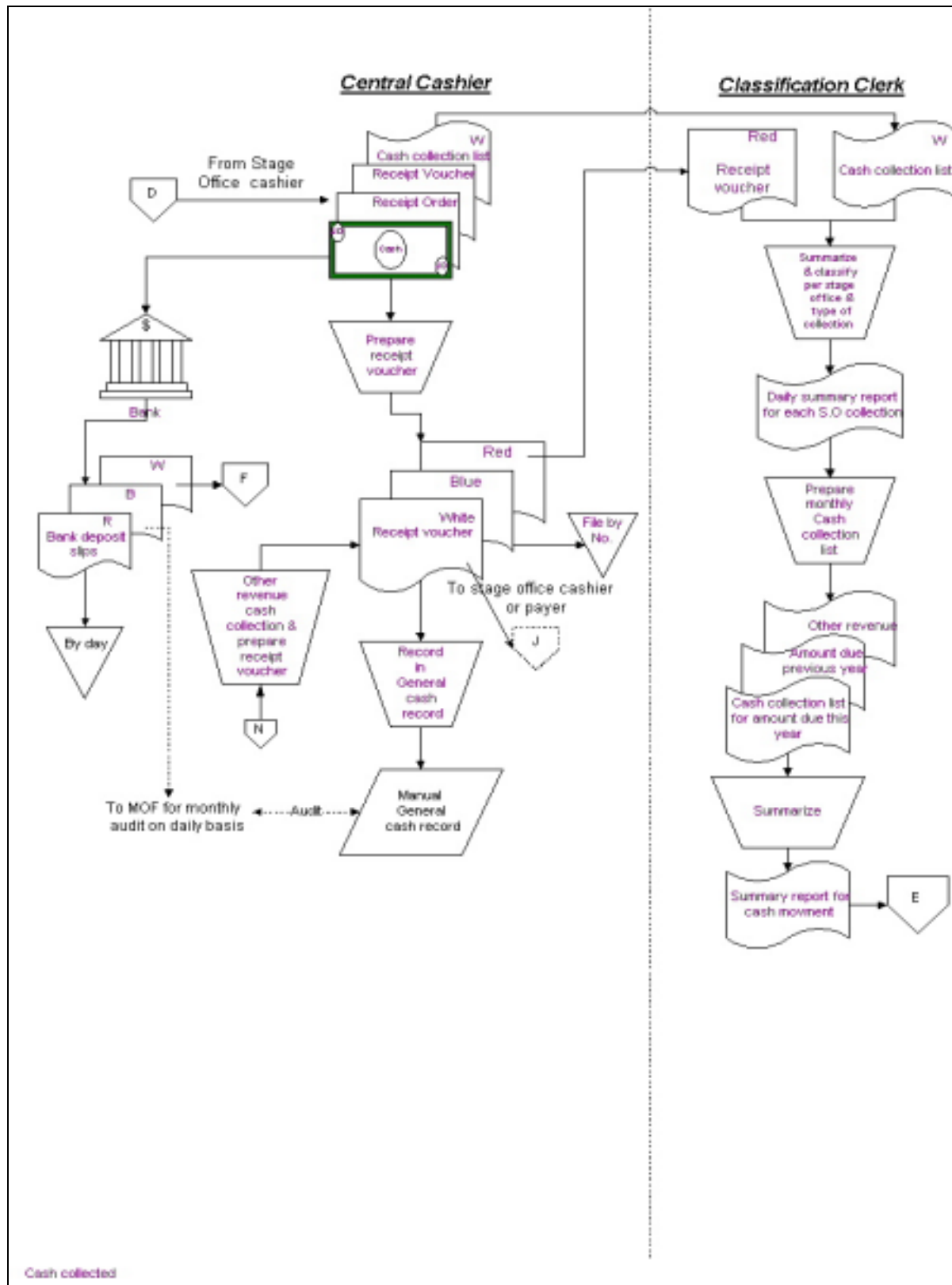
- The accounting clerk prepares a single copy of a receipt order (order for payment) stating the amount due from the farmer.
- The farmer takes the receipt order to the cashier and pays the amount due against a pre-numbered receipt voucher issued in triplicate and distributed as follows:
 - White copy to the farmer;
 - Blue copy to the accounting clerk to manually post the amount in the receivable ledger and in the computer system to be filed serially by the cashier; and
 - Red copy to record the amount paid on the cash collection list.
- The cashier prepares the cash collection list, which is a list of all vouchers received for the day along with the farmers' names, receipt voucher serial numbers and amounts paid. The collection list is in duplicate and is distributed as follows:
 - Yellow copy filed by date by the cashier; and
 - White copy to the central cashier long with a receipt order, receipt voucher, and cash against a receipt voucher from the cashier at the division.
- The central cashier deposits the cash in the Housing Bank general revenue account (beneficiary is Ministry of Finance) on a daily basis against three bank slip copies distributed as follows:
 - First copy is kept by the central cashier;
 - Second copy is submitted to headquarters in Amman via Dirar; and
 - Third copy is submitted to the Ministry of Finance for audit.
- The central cashier receives the receipt order, receipt voucher, cash collection list and cash from the stage office cashier and prepares a receipt voucher in triplicate distributed as follows:
 - White copy to the stage office cashier;
 - Blue copy filed serially by the central cashier; and
 - Red copy to the classification clerk along with the daily cash collection list.
- The central cashier manually records the receipt vouchers sequentially in the general cash record. At the end of the month the central cashier submits the general cash records along with bank slips to the Ministry of Finance for audit against receipt vouchers.
- The classification clerk receives the daily cash collection list and the red copy of the receipt voucher from the central cashier.
- The classification clerk classifies and summarizes cash collected by the central cashier into one of the following three types of monthly cash collection lists (CCL) and compares the total amounts of all the lists with the general cash record:

- CCL for cash collected from amount due in the current year;
 - CCL for cash collected from amount due in the previous year; and
 - CCL for cash collected from other source.
- At the end of the month, the classification clerk prepares a summary report for cash movement in each stage office.
 - The financial manager of the division receives a summary report of cash movement for each stage office to review, consolidate and report on to headquarters in Amman.
 - The financial manager in Amman submits the report to the Ministry of Finance and keeps a copy.

The head of the accounting section reviews reports submitted by the classification clerks, stage offices, central cashier and any other related documents and prepares the monthly report. The head of the finance and administration department reviews the monthly report submitted by the head of the accounting section and reports results to headquarters in Amman via Dirar. The internal auditor compares monthly cash collection lists with reports generated by the computer systems at the stage offices using the manual records maintained by stage offices. He also verifies classifications, the completeness of recording, and whether irrigation orders submitted by each stage office are reasonable.

Figure 2.3 below illustrates the process.

Figure 2.3 Processing Cash Receipts and Generating Reports at the Division

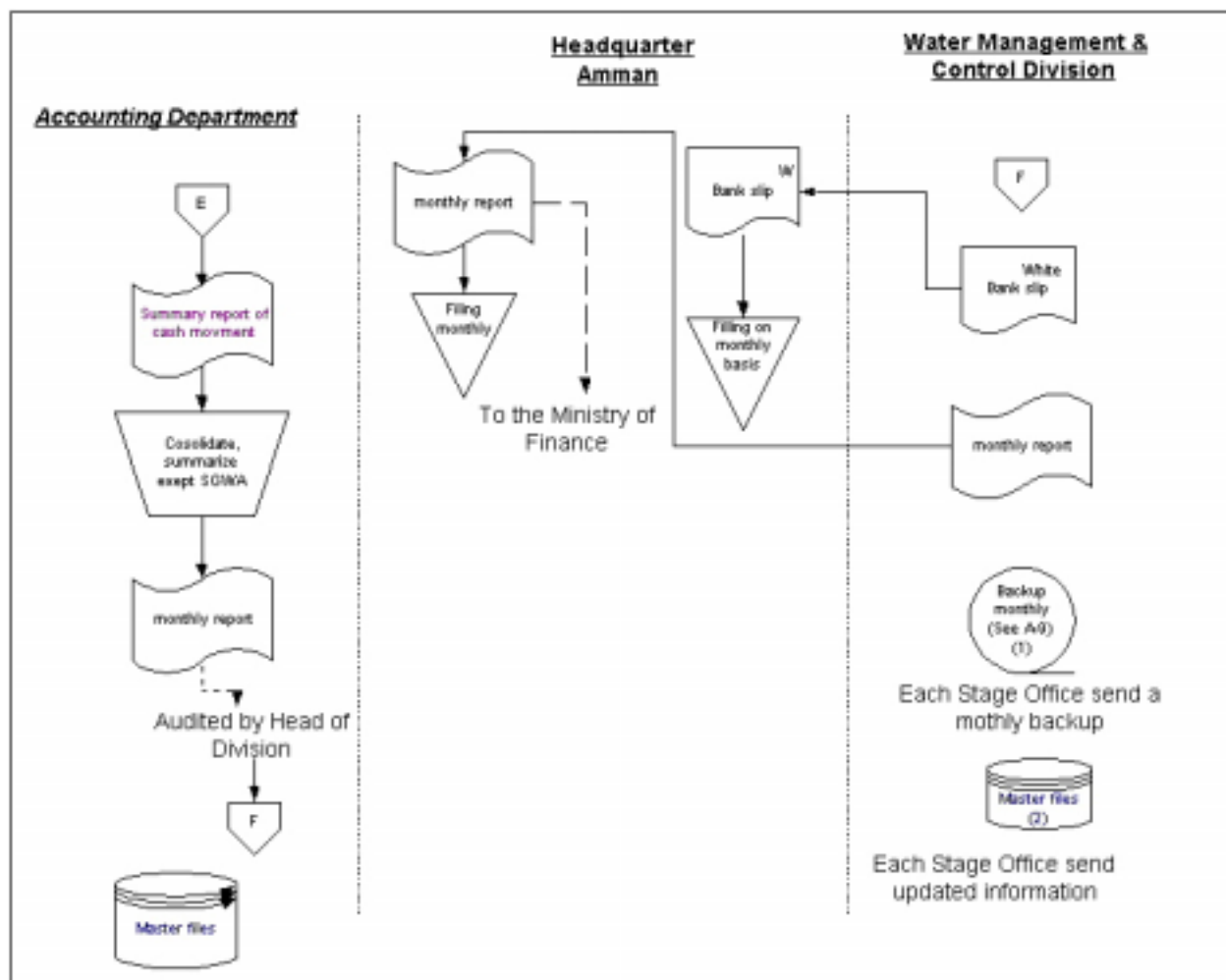


2.5 Maintaining Customer Master Files

Each stage office manually maintains a master file for each farming unit. The master files include the characteristics of each farming unit, the farmer's name, the development area, the stage office, the landscape, farming type, meter number, etc. Financial and historical data are not included in the manual records but are kept in the computer. Each division also manually maintains master files for each unit. Such files include historical data in addition to information maintained at the stage offices. The Water Management and Control Division (Dirar Center) keeps a backup of the master files maintained at stage offices except for SGWA.

Figure 2.4 below illustrates the process.

Figure 2.4 Circulation of Final Reports Generated by Divisions



2.6 Recommendations

We offer the following observations and recommendations.

- No serially numbered water sales invoices are issued to farmers on a monthly basis. Such invoices should be in triplicate and should include the following information: water consumed, water meter reading, amount due in JD's, time period covered, etc.

Issue serially numbered invoices monthly to assure the completeness of water revenue records. Copies should be distributed as follows: one copy for the farmer, one for the invoice ledger, and one to be recorded in the accounting section. Invoices reflect revenues realized during a specific period, hence each period is charged with revenues realized and earned in that period. Invoices represent a financial liability to farmers when issued. When a dispute arises between farmers and the JVA, invoices serve as evidence of a transaction and as can be used to resolve the dispute. Invoices should be issued on a monthly basis to avoid any cut-off errors.

- Some stage offices use serially numbered irrigation orders and some do not.

Use serially pre-numbered irrigation orders to enhance control over entry of the orders into the system and to make sure that all farmers receive the service they requested. The number of farming units to which water has been pumped should equal the number of irrigation requests submitted for the period.

- As mentioned earlier, no serially pre-numbered invoices and serially pre-numbered irrigation orders are used.

Upon implementing a billing system, segregate invoice, receipts and receivable processing as a control measure.

- No statements of account are sent to the farmers showing invoices outstanding and payments made.

We recommend a detailed statement of account be developed and sent to farmers to remind them of balances due. The statement should include information on unpaid invoices, invoice dates, and payments made during the period. Such a statement could be used as evidence if a dispute arises.

- Most farming units do not have water meters installed to measure the water consumed. For units without meters, consumption is calculated according to a formula that multiplies pumping hours by pumping capacity.

Install tamper-proof water meters where farmers do not have ready access to them. In addition, we recommend the institution of severe penalties for attempting to tamper with water meters.

- There is no proper accounts receivable subsidiary ledger that shows monthly receivables and payments and reference to such transactions (i.e. invoice number, journal number, date, receipt voucher number and a description of the transaction).

Use an accounts receivable subsidiary ledger for easy reference to track the movement of receivables to source documents and to any information related to the farmer's account.

- Accounts receivable are not aged.

They should be in order to identify bad debts. This will help determine a credit limit for each farmer. It will also help to measure days in receivables to better prepare and forecast the statement of cash flow.

- Currently, there is no provision for bad debts for accounts receivable (A/R).

We recommend setting a policy for estimating a provision for bad debts as a conservative measure to better report information to management.

- No serially pre-numbered credit notes approved by management are used to make adjustments to customer accounts (for example, meter reading errors or errors in invoices issued).

Credit notes should be used to support any adjustments made to farmers' accounts.

- In the manually kept records, there is no master file to show necessary data such as farmer's name, basin number, unit number, area of unit, farming type and crop, credit history, location, farmer's address, land deed number, credit limit, penalty history, etc.

There should be a master file for each farmer to help monitor accounts receivable and to be able to tell the financial position of each farmer, his fees and payments, ability to pay, credit limit determination and water consumption forecasts.

CHAPTER 3

REVENUE FROM THE SALE OF LAND

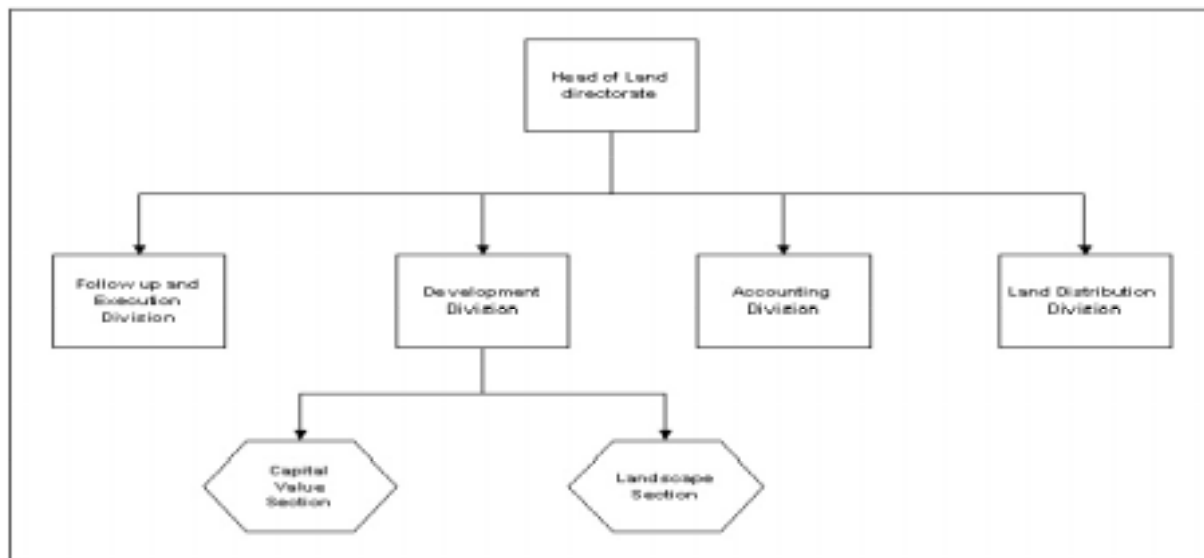
3.1 Introduction

The Lands and Rural Development Governate of JVA is divided into two directorates: Land and Rural Development and Investment. JVA buys land from landowners through its Land Development Division, which is part of the Land and Rural Development Directorate. After land is purchased, it is divided into units and then sold to farmers or residents in the Valley. Some property is former treasury land, so the cost is equal to the improvements made by JVA. Profit is not considered when land sales take place. Land sales are primarily an administrative matter. Financial procedures have a minor role in this division; in fact, some essential ones do not exist at all. The main business activities in the Land Development Division are the following:

- Managing and processing orders
- Recording payments
- Receiving cash
- Disbursing cash

Figure 3.1 below illustrates the structure of the division.

Figure 3.1 Land Development Directorate Structure



The land distribution division of the directorate is responsible for the following:

- Sale of farming units
- Sale of housing land units
- Redistribution of irrigated lands

Revenue is generated from the sale of farming and housing units.

3.2 Sale of Farming Units

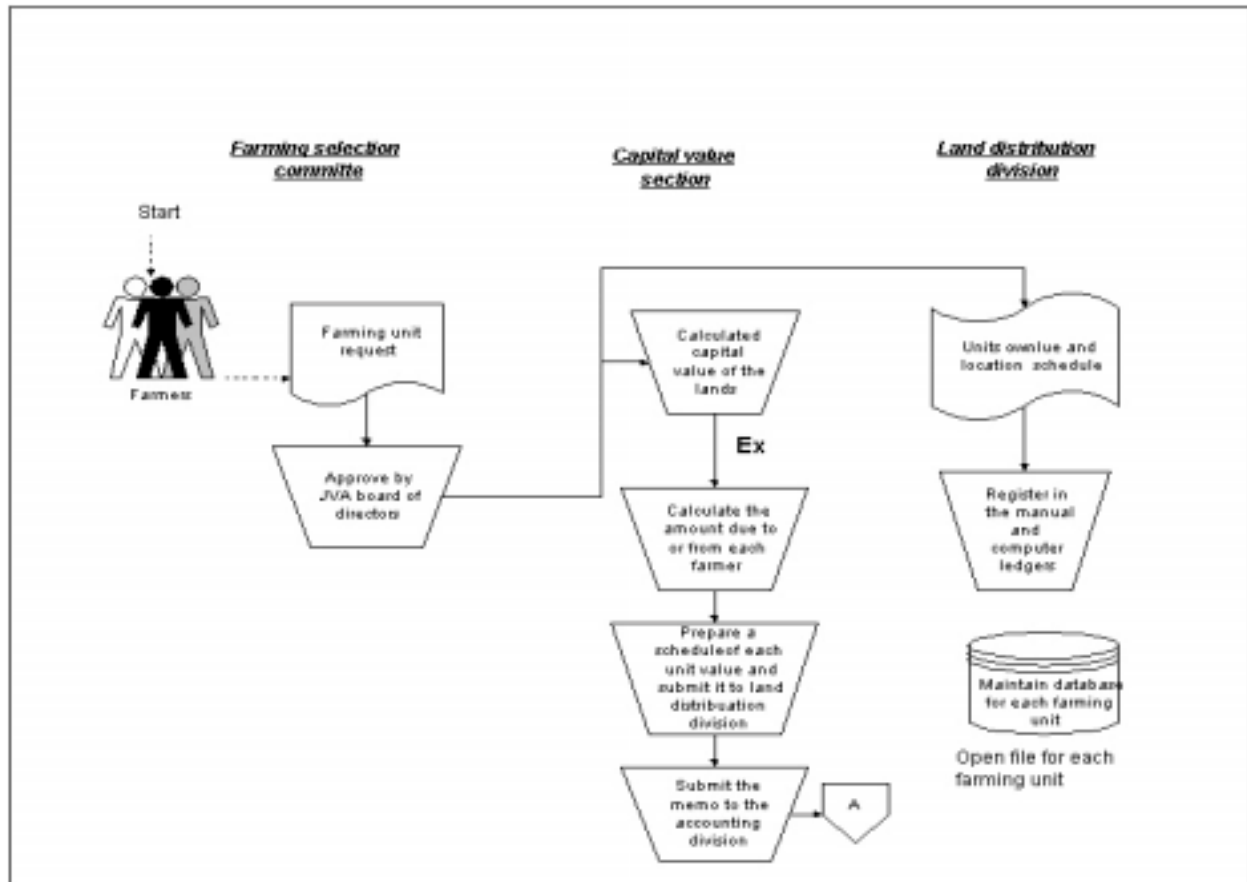
The land development directorate has a farming selection committee responsible for choosing farmers who will be given land according to established criteria. The process of selling land is as follows.

3.2.1 Managing and Processing Orders

- A farmer fills out a farming unit request for approval by the farming selection committee.
- The farming selection committee provides a list of recommended farmers to JVA Board of Directors for approval. Subsequently, the approved list is sent to the land distribution department and to the capital value section.
- The capital value section calculates the capital value of the land, taking into consideration any existing structures or trees plus any additional improvements made by JVA. They then prepare a schedule in which the value of the unit is specified and the amount due to a landowner and from a farmer is determined. This schedule is submitted to the land distribution department.
- The capital value section prepares a memo containing names of persons, whether they are farmers or landowners, and the amount due to or from each. This is submitted to the accounting division.
- When the land distribution department receives the approval from JVA board of directors, they inform the Land and Survey Department (LSD), which is government department other than JVA and is responsible for land registration and landmark all over Jordan; allowing it to proceed with registering the land in the name of the new owners. On the other hand, manual ledgers and a computerized database is also updated.
- A file (master file) is opened for each farmer and landowner in the distribution department for follow-up on any administrative and legal issues. No financial data are included in the master files.

Figure 3.2 on the following page illustrates the process from its initiation when farmers fill out a farming unit request until the data are submitted to the accounting department.

Figure 3.2 Managing and Processing Orders



3.2.2 Recording Payments

The accounting process begins when the accounting division receives the memo from the land distribution department.

- The accounting division informs the farmers and landowners by advertising their names in an official circular.
- An account is opened in the manual ledger (either receivable or payable) and in the computer (receivable or payable).
- The amount due to or from is then posted in the ledger and computer.

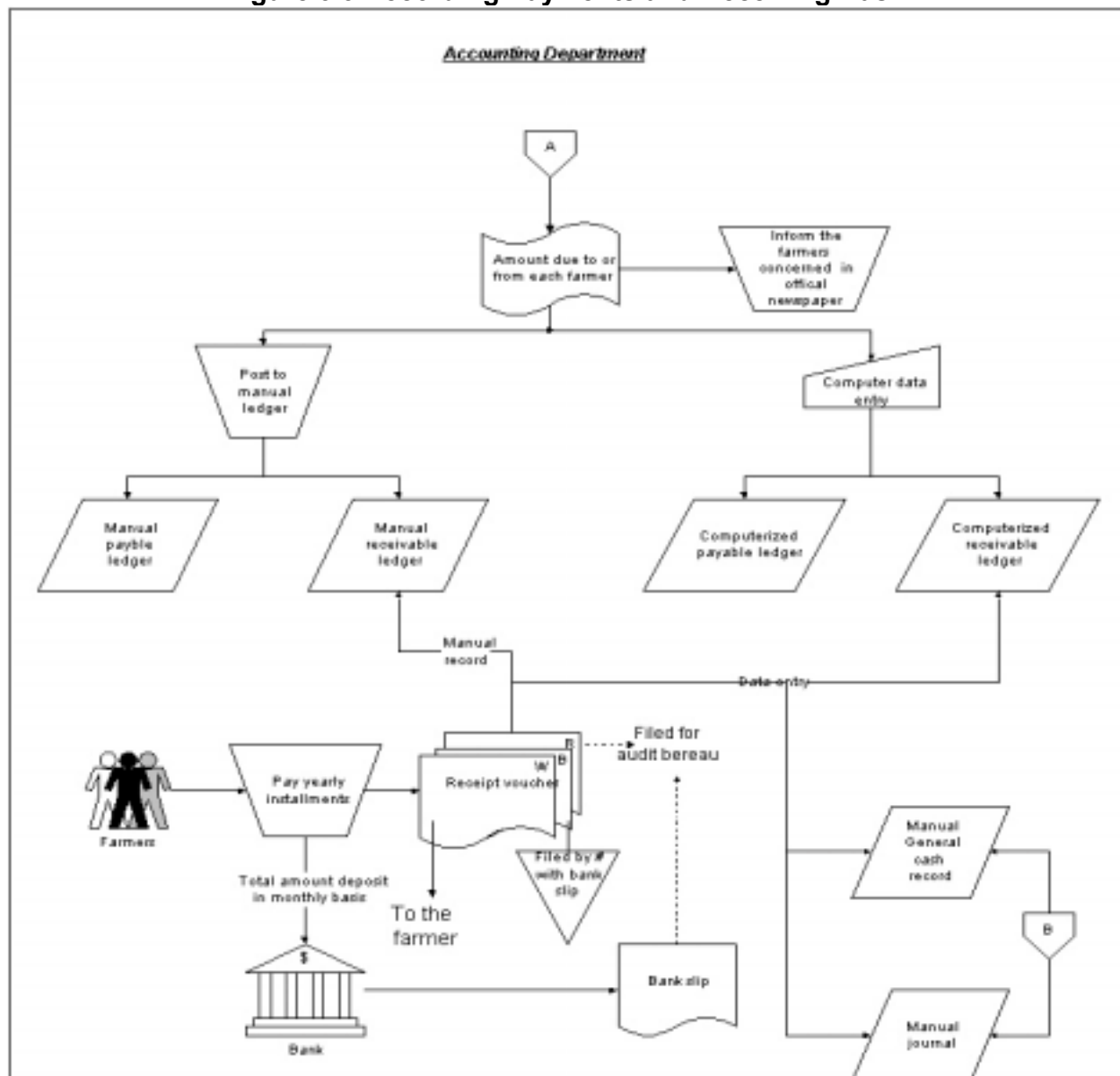
3.2.3 Receiving Cash

- Farmers go to the accounting department to pay their annual installments. A receipt voucher is issued in triplicate upon receipt of cash and is distributed as follows:
 - The white copy is issued to the farmer (payer).
 - The blue copy is maintained in the receipt book.

- The red copy is filed by number along with the daily bank slips which are then audited by the audit bureau.
- The blue copy is used to manually post the amounts in the receivable ledger and on the computer.
- The data are also entered manually into a general cash record and in the accounting journal.
- Double entry accounting is used in this journal.

Figure 3.3 illustrates the processes of recording payments and receiving cash.

Figure 3.3 Recording Payments and Receiving Cash



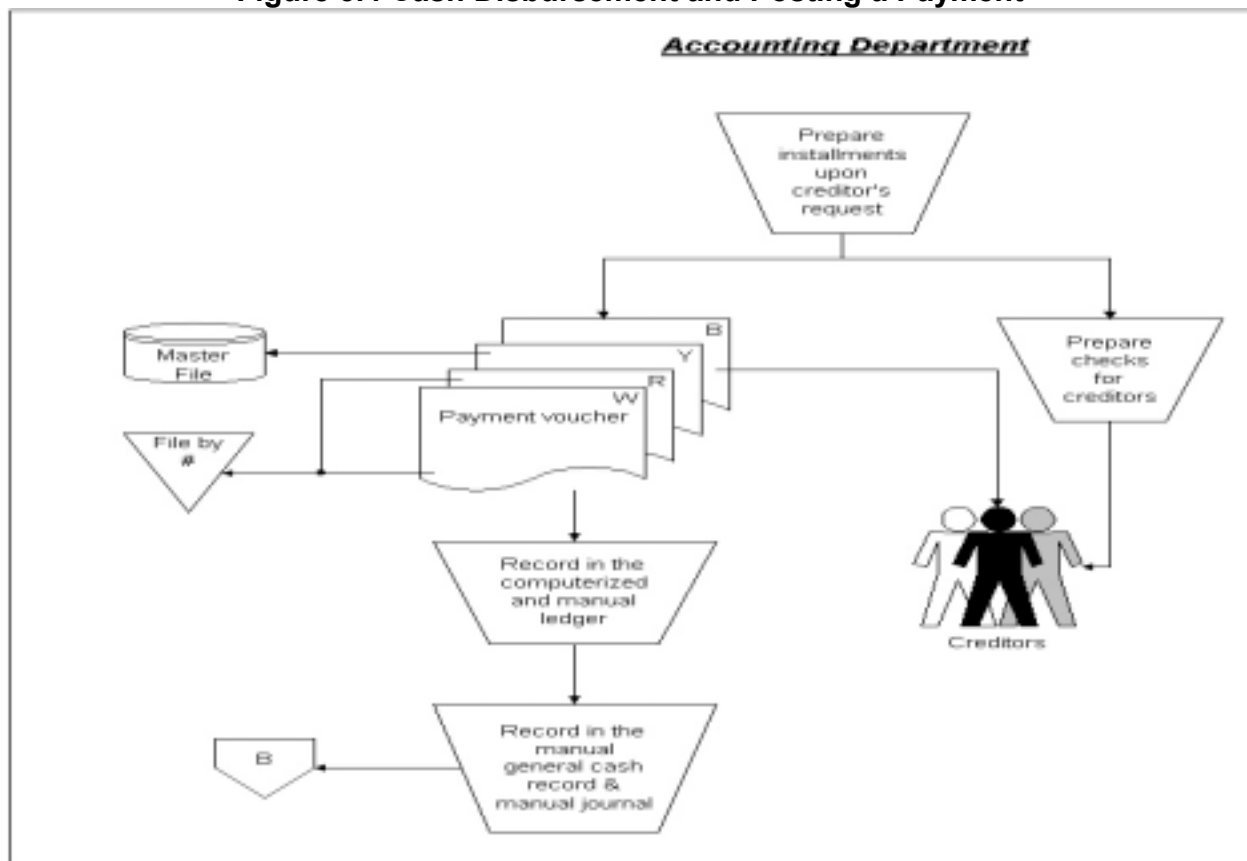
3.2.4 Disbursing Cash

When landowners go to the accounting department to receive their annual payments, the process continues as follows:

- The accounting department prepares a payment voucher in quadruplicate which is distributed as follows:
 - The red and white copies are filed serially.
 - The yellow copy is filed in the creditor master file.
 - The blue copy is given to the farmer.
- The accounting department records the amount paid in the ledger and on the computer.
- The department manually records the amount paid into the general cashier record.
- A simple annual interest rate of four percent is calculated (revenue and/or expenses) and paid with the annual installments.

Figure 3.4 on the following page illustrates the process from cash disbursement through posting the payment into related records.

Figure 3.4 Cash Disbursement and Posting a Payment



3.3 Sale of Housing Units

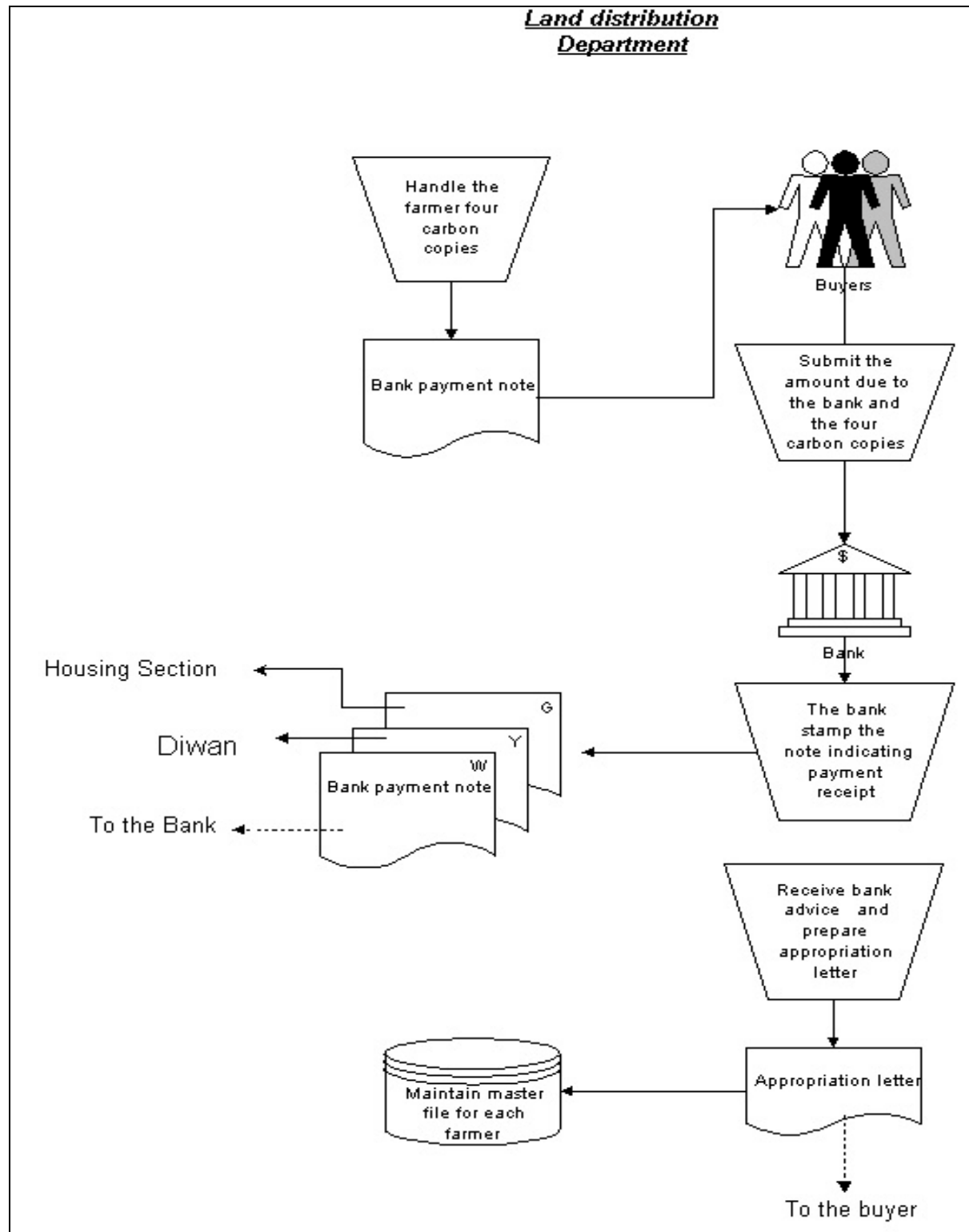
The procedures for managing and processing orders for housing unit sales are similar to those for farming unit sales. **Exception:** The distribution division does not register the land sold with the Land and Survey Department. Unlike farming unit land, most housing land was expropriated from the national treasury, so disbursement of cash to former owners is minimal.

3.3.1 Receiving Cash and Recording Payments

- A customer gets a payment note from the land directorate. This form is in quadruplicate and is actually an order for the Housing Bank to collect a sum of money from the buyer that includes the price of the land.
- The note is stamped by the bank, indicating payment. Three copies are distributed as follows:
 - The white copy goes to the bank;
 - The yellow copy is filed at the Diwan (Incoming and outgoing of messages); and
 - The green copy is filed in the unit file at the housing section.
- The buyer returns to the division after paying the amount due and gives the division the bank advice, which indicates payment.
- The buyer gets an appropriation letter to facilitate installing utilities on his land. The letter is in duplicate. One copy is kept by the distribution department and the other is kept by the housing section.
- The housing section opens a file for each housing unit that includes information about the unit, the owner, the landscape, and directions to follow-up on mortgage procedures if the price of the land has not been paid in full.
- By the end of each month, the bank sends a statement showing the total amount received (one total) without any details about the buyer. This may create a serious problem for the division because there are many buyers who have monthly payment terms, and the division does not keep track of the outstanding balances.

Figure 3.5 on the following page illustrates the process of receiving cash through the maintenance of master files for units.

Figure 3.5 Receiving Cash and Maintaining Master Files



3.4 Recommendations

Implementing the FAS will affect the land division because the value of land owned by JVA is not recorded and is not considered as an investment according to international accounting standards (IAS).

Our main observation regarding housing land sales was that there are no records to keep track of transactions (i.e. accounts receivable, payable), and there is no reference for such transactions. This is true despite the fact that JVA law states that the land division should maintain records similar to those maintained for the sale of farming units.

The FAS will help to keep track of accounts receivable and payable and will treat the value of the land in accordance with IAS. It will also record interest earned and interest accrued on a monthly basis. This will generate proper subsidiary ledgers to be posted to the general ledger on a regular basis.

We have the following observations and recommendations.

- The recording process is short and not good enough.

The process should start with a pre-numbered Journal entry. It should be a double entry recording which has a debit side and a credit side. For example, the possession (purchase) of lands should be recorded using a journal entry as follows: the land value (investment) on the debit side and the buyer account (accounts payable) on the credit side. Double entry accounting should be applied on any transaction.

- The accounting software in place is not utilized to generate proper subsidiary ledgers.

Use the system to generate accounts receivable, accounts payable and bank subsidiary ledgers.

- The accounting division does not maintain any records to account for sales of housing units.

Maintain proper records to account for housing unit sales and to keep track of accounts receivable, accounts payable, interest revenues and interest expenses.

- The sale of a housing unit is not registered with the Department of Land and Survey.

Register all land sold in the name of the new owner to maintain his right to the land in the future if a dispute should arise.

CHAPTER 4

LEASE AND SALE OF LAND FOR INVESTMENT

Investment is the other directorate of the Land and Rural Development Governate of JVA. The main objective of this directorate is to develop the east coast of the Dead Sea according to a master plan. The coast has been divided into plots destined for one of the following types of development:

- Hotel and tourist village
- Villas and condominiums
- Health center and natural medicine facilities
- Recreational areas
- Sports clubs and youth camps
- Beach areas and archeological sites

JVA is responsible for the infrastructure in the area, so infrastructure costs are included in the budget.

Investors have the option to either rent or buy land. The decision to sell land was made in October 1999. The Office of the Prime Minister determined the price at a minimum of JD 15,000 per dunum (one thousand square meters); JVA Council set the price at JD 17,000. (Renting land costs JD 2,500 per dunum annually.) The restriction on buying land is that investors must complete 60% of their projects before they can exercise their final options.

When the Investment Directorate decides to lease plots of land, ads are placed in newspapers. Potential investors must provide the following:

- Information about project type, project cost and party managing the project after completion;
- Feasibility study;
- Previous experience of investor; and
- Registration certificate of investor with the Ministry of Trade and Industry.

A technical committee is responsible for selecting projects based on type and qualification of investor. The committee includes the Secretary General of each of the following:

- the Jordan Valley Authority
- the Ministry of Water and Irrigation
- the Ministry of Finance
- the Ministry of Trade and Industry
- the Department of Land and Survey

After studying proposals, a recommendation is made to JVA council which is sent to the Office of the Prime Minister for approval. A contract is then signed. A typical contract includes the following terms:

- Contract number, parties, type of land and purpose of use
- Rental period and fees
- Other contractual terms

A performance bond usually equal to 1% of the total project cost is required to make sure that the investor is serious. Contracts may vary, but usually the investor has three years to start the project; if work does not begin on time, the bond is cashed in. There are no financial implications for the Investment Directorate. JVA is informed of the contract terms and investors pay fees due to JVA. The process of receiving cash is covered in the revenue business cycle.

CHAPTER 5

LEASE LAND FOR QUERIES, GAS STATIONS AND STONE PITS

5.1 Introduction

JVA controls other sorts of investment in the Valley such as gas stations, industrial projects and stone pits through its Queries Division. The head of the queries division reports directly to the Assistant Secretary General (ASG) of the Land and Rural Development Governate. He is responsible for assessing the suitability of proposals. The minimum land area for leasing is 10 dunum though no specific amount is stipulated for gas stations. Renting land costs JD 1,000 per dunum annually. The main business activities in this division are processing orders and receiving cash.

5.2 Processing Orders

- A customer fills out a request form to lease the land desired.
- The head of the division visits the site with a land department representative to specify boundaries and to check if it is suitable for the project.
- The head obtains the approval of the appropriate government body such as the Ministry of Agriculture or the Natural Resources Authority.
- The head reviews all documentation and submits his recommendation to the board of directors then to the Prime Minister for final approval.
- The head secures an unconditional and irrevocable guarantee in the amount of JD 25,000.

5.3 Receiving Cash

- The process begins when the Prime Minister approves a proposal. The customer obtains a copy of the approval and goes to the revenue section to pay the amount due against a receipt voucher.
- The applicant submits the receipt voucher to the head of the Queries Division. The Secretary General then signs his contract.
- Finally, the head of the division opens a master file for each rental unit for follow-up.

5.4 Recommendations

Implementing the FAS will affect both the Investment Directorate and the Queries Division because land owned by JVA is not recorded and is not considered an investment according to international accounting standards. Land owned by JVA is either for lease or for sale,

therefore, the value should appear in the financial statement as a current investment under current assets or non-current assets, depending on the intent to sell the land in the short or long-run. Long-term investments (non-current assets) should be evaluated by cost or revaluation amount.

We have the following observations and recommendations.

- Land for investment is handled by the Investment Directorate while land for lease is handled separately by the head of the Queries Division.

We would recommend that both be handled by the same body due to the similarities of the processes involved.

- The recording process for leased land is the same as that for land sold or rented.

The processes should be different. When the lease amount becomes due, the revenue should be recognized, regardless of whether it is paid, with a journal entry. The entry in the debit side is the unearned revenue and in the credit side is the revenue (rent revenue). When payment is made, debit the bank account or cash and credit the unearned revenue.

- There is no accounting division to maintain records for sales or rentals of investment units or for leasing of query units.

We recommend that proper records and ledgers be maintained to keep track of accounts receivable, accounts payable and unearned revenue.